State Budget Notes

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State Budget "Balance" for Fiscal Year 2007 Achieved with $1 Billion in Additional Non-Recurring Resources

State policymakers have avoided the requisite steps to align on-going expenditures with on-going revenues since FY2001, choosing instead to employ over $6.8 billion in non-recurring adjustments to balance both sides of state budget through FY2006 (See *Table 1*). The recent CRC analysis of the State of Michigan's worsening cash position (www.crcmich.org/PUBLICAT/2000s/2007/note2007-02.pdf) found that the use of cash reserves and other one-time resources to balance the General and School Aid Fund budgets over past six fiscal years has resulted in an unprecedented level of short-term borrowing to manage cash obligations. Solutions to the FY2007 budget deficits, recently agreed to by the Governor and legislative leaders, will add $1 billion to the list of one-time adjustments used and further strain the state's weakening cash position.

After months of delay to fully resolve the current-year budget deficits, a final agreement between legislative leaders and the Governor was struck in the last days of May, avoiding the threatened per-pupil funding cuts to local schools and reductions in Medicaid provider reimbursements that were slated to take effect in June. While the Governor's original budget-balancing proposal relied heavily on an increase in state revenues, legislative proposals instead used program reductions and transfers from various restricted funds to achieve budget balance. The underlying structural budget issues, fueled by health care and Department of Corrections spending and a revenue structure that is unresponsive to economic growth, went unaddressed in the various plans developed to deal with the current-year problem.

The recently-announced agreement to address the remaining portions of the FY2007 budget deficits (estimated to be $800 million) does nothing to address the structural problems, but instead extends the trend of the past six years by relying on more than $1 billion in stop-gap measures to align the two sides of the budget. This figure amounts to five percent of total net revenue expected to be received in the two funds this

Table 1
One-Time Resources Used to Balance General and School Aid Fund Budgets: FY2001 - FY2006
(millions of dollars)

Budget Stabilization Fund Surplus	$1,363
FY2000 School Aid Fund Surplus	984
FY2000 General Fund/General Purpose Surplus	212
Medicaid Benefits Trust Fund	561
Advance State Education Tax Collection Date	455
Tobacco Settlement/Merit Award Revenues	324
Temporary Federal Fiscal Assistance	655
Bond for Pay-As-You-Go Capital Projects	211
Revenue Sharing Accounting Change	181
Refinance Bonds	295
State Employee Wage Concessions	186
Other	1,383
Total	*$6,810*

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year. The nature of these resources varies as indicated in *Table 2*.

The State of Michigan will borrow against its future annual tobacco settlement revenues in order to receive a $407 million lump sum payment to help balance the FY2007 budget. In 2006, Michigan pledged a portion ($43 million) of these revenues for a period of 20 years to capitalize the 21st Century Jobs Fund ($400 million), a new economic development program. The next round of borrowing will require the State to pledge, long-term, a similar level of its future tobacco revenues to satisfy the associated debt service, making these resources unavailable to fund other programs in the State budget. An important difference between the 2006 bonds and the contemplated 2007 borrowing is that the economic development borrowing was used to support one-time grants and loans as opposed to ongoing appropriations made from the General and School Aid Funds.

While the decision to delay, until the next fiscal year, the final FY2007 payment to Michigan public universities and community colleges helps to balance the current budget, this action immediately adds to the challenge of balancing spending with available revenue in FY2008.

Table 2
FY2007 One-Time Resources (millions of dollars)

Tobacco Settlement Securitization	$407
August 2007 Higher Education Payment Delay	165
Reductions in Required Retirement Systems Payments	131
Transfers to General Fund/Other Funds:	
Higher Education Student Loan Authority	90
21st Century Jobs Fund	30
Michigan Conservation Corps Endowment Fund	20
Convention Facilities Development Fund	35
Refined Petroleum Fund	70
Other Restricted Funds	67
Total	*$1,015*

The balances in the various restricted funds that will be redirected to the General Fund and other funds will become unavailable for appropriation pursuant to their original statutory intent. These diversions will directly reduce the amount of state resources available to local government, environmental clean-up, and economic development programs.

Reductions in the required amortization payments to state-administered retirement systems, if made for only one fiscal year, will not significantly damage the funding strength of those systems. However, continuation of this practice would have serious negative consequences in the long-run.

Delaying permanent solutions to the deficit into FY2008 creates an even greater challenge in writing a balanced budget. The revenue shortfall associated with the cost of maintaining current programs and policies supported by the General and School Aid Funds is approximately $1.5 billion, assuming the replacement tax(es) for the repealed Single Business Tax (SBT) fully offset the FY2008 revenue loss from the SBT.